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C O N F I D E N T I A L SECTION 01 OF 02 MANAMA 000326

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SUBJECT: SECRETARY GUTIERREZ MEETS WITH KING HAMAD: FTA,
HAMAS, GAS FROM QATAR

Classified By: Ambassador William T. Monroe. Reason: 1.4 (b)(d)

1. (C) Summary. In a February 27 meeting with visiting Commerce Secretary Gutierrez, King Hamad strongly praised the strength of the U.S.-Bahrain relationship, said that Bahrain can never forget what the U.S. has done for it, and stressed the importance of the Free Trade Agreement for Bahrain. He lamented the negative influence that populist ideologies had had in the region, including Bahrain, after the colonial powers left, but said that Bahrain is trying to correct mistakes of that era, including nationalization of the oil sector. The Crown Prince is leading the effort in Bahrain to privatize. On Hamas, he said Hamas was elected by the people and should be given a chance. Hamas should be weakened, he stated, but not by cutting off its funds, which only enhances its prestige. Both Israel and Hamas have to be encouraged to work with each other. In terms of developing industry in Bahrain, the King remained hopeful of getting gas supplies from Qatar, but acknowledged for the first time that Qatar has a problem of available gas resources and wants to wait until 2007 to start discussions. End summary.

2. (C) While in Bahrain to deliver a keynote speech at a U.S. co-sponsored conference on Free Trade in the Middle East, Secretary of Commerce Carlos Gutierrez met February 27 with

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King Hamad. The King opened the meeting by thanking the Secretary for the strong support for Bahrain he expressed in

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his speech that morning at the Free Trade Conference. What the U.S. has done for Bahrain, the King said, is something that Bahrain can never forget. The relationship began over 100 years ago with a hospital. It was an American oil company that first discovered oil in Bahrain in the 1930s. It was only later, after people-to-people relations had long been established, that official relations were established, first when the U.S. Navy came in the late 1940s and then when formal diplomatic relations "crowned the relationship" in the 1970s. The significance is that U.S.-Bahrain relations developed naturally, and not through government actions.

3. (C) The King observed that many of the great achievements in Bahrain actually dated back to the first part of the 20th century. Examples he cited included:

- Women competed in municipal elections in the 1920s
- Labor unions were established in the 1950s
- Bahrain first had a Shura (advisory) Council 100 years ago
- Foreigners were allowed to own property and vote in municipal elections

Much of this was set back, the King said, by the populist ideologies that swept the Arab world as the colonial powers left. Young graduates, educated in Damascus and Baghdad, returned home and pushed an anti-Western agenda. "We listened to them," he said, "forgetting where they were coming from." And then Bahrain, which had been quite comfortable with its U.S. and British friends, suddenly found itself criticized in the region for being a U.S. ally.

4. (C) Big mistakes were made in the Arab world at that time, King Hamad said, including the push to nationalize oil, which Bahrain did too. Bahrain now realizes that was a mistake, and is looking at the possibility of bringing its former oil partners back. Bahrain now has a big oil ministry. Why? It did fine in the old days without one. What the Crown Prince is trying to do in his reform effort is to de-centralize and privatize. Bahrain must get the private sector back in, or it will not be able to cope in the modern world.

5. (C) The Secretary stated that it was his understanding the King was a prime motivator behind Bahrain's decision to negotiate an FTA with the U.S. and said that the U.S.-Bahrain FTA was an important accomplishment. The King responded that it was wonderful that a small country like Bahrain has the respect of a big country like the U.S. He took great satisfaction that the Bahrain FTA passed Congress with the largest majority of any FTA. The FTA is very important for Bahrain, and now Bahrain must learn how to benefit from it. The Secretary stated that the Commerce Department was ready to support Bahrain in this effort.

16. (C) The Secretary asked the King how he saw the region, and what worried him. The King replied that the security situation in the region is worrisome, and there are concerns about Iran and Iraq. Thankfully, the situation in Bahrain is more secure. The people of Bahrain want to maintain what they have. No one has raised a word about the presence of the Fifth Fleet in Bahrain, even though the U.S. is blamed for bad things throughout the region. In Bahrain, there are radical Muslims, but they have been pulled into parliament. When it came to the FTA, and the abolishment of the boycott office, they were OK with it because they know that what the government is doing is good for Bahrain.

17. (C) The King said the Israeli-Palestinian situation continues to worry him. "We need real peace," he said. "If we can't be good at war, we should at least be good at peace." Bahrain has no real issues with Israel. The King met Perez in Sharm Al-Shaikh. The Crown Prince has met Israelis at conferences. Bahrain has a Jewish member of parliament (in the appointed Shura Council). The Foreign Ministry has nominated a Jewish woman (Houda Nonoo) to be on the board of the Foundation for the Future. But Bahrain can't be expected to lead on this issue, and Israel must help. Hamas was elected by the people. Hamas should be given funds for two-three months to see what they do. Cutting them off only increases their prestige. Hamas should be weakened, but not by cutting off their funds.

18. (C) The King stated that he urged Hosni Mubarak, who had just departed Bahrain after a short overnight visit, to try to persuade Israel to work with Hamas and vice-versa. Mubarak told him that he had instructed Intelligence Chief Omar Soliman to "talk sense" to both sides.

19. (C) Turning to Bahrain's economic future, the King stated that Bahrain remains hopeful of getting natural gas from Qatar, which will be essential if the country is to expand key industries, including aluminum giant Alba. Qatar has promised to help, but has a problem of available gas resources and now says it wants to wait until 2007 to start talking about it. Bahrain thinks that, in any event, construction should begin now because of the time required to build the pipeline. That way, the pipeline will be ready when Qatar has resources available and can supply the Bahrain market. (Comment: This is consistent with Embassy Doha reporting, but the first time the Bahrainis have acknowledged to us that Qatar may have a supply problem and that a deal is not imminent. End comment.)
MONROE